Guide to Fund Supermarkets

What is a Fund Supermarket?

The idea of a fund supermarket was first established in the United States over ten years ago and arrived in the UK at the end of 1999. The term supermarket is given to these businesses because of the way in which they operate. They offer a very wide choice by allowing investors to invest in the funds, which are normally Unit Trusts or OEICS, of many different investment management groups through just one place.

There is a multitude of different fund supermarkets many of which are only available via the Internet. There are differences between the various funds supermarkets normally in the number of investment management groups on offer, services and functionality.

It is normal for the fund supermarkets that offer the greatest number of Investment Management Groups to give the widest choice of investment funds.

What Investment Funds are available?

The idea of the fund supermarket was developed to offer a more convenient way for people to invest in collective investment funds, which here in the United Kingdom means Unit Trusts (UTs) or Open Ended Investment Companies (OEICs).

Most of the fund supermarkets allow you to hold these investment funds with tax efficient wrappers such as Individual Savings Accounts (ISAs) or Personal Equity Plans (PEPs).

Please note that no new PEPs have been established since 5th April 1999. If you wish to transfer all or part of your existing PEP then some fund supermarkets will arrange this for you.

Are the investment funds available through Fund Supermarkets different to those I can buy direct?

The simple answer to this question is No. Any of the investment products available via the fund supermarket could be purchased from the Investment Management Groups either directly or through a Financial Adviser such as ourselves.

Some fund supermarkets can only be accessed via an Independent Financial Adviser (IFA) or via an IFA's website. Please contact us, and we will be happy to advise how these may effect you.

Why might I consider investing through a Fund Supermarket?

The success of the fund supermarkets has been brought about because of the competitive charging structures that are normally on offer. Also an important feature is the ability to mix funds from several different investment management groups within one product such as your ISA plan.

By investing through a fund supermarket you can normally purchase your investments on-line and once the plan is up and running receive consolidated statements that show the value of your total investment, even if it is spread across a number of different investment management groups.

Are there additional charges for using a Fund Supermarket?

Usually there is no charge to the consumer for making investments using the services of a fund supermarket, although some of them may make separate charges if they offer other financial services. In some cases the fund supermarket offers discounts on the initial charge that would normally be levied under the investment fund. Initial charges can be as high as 6% on some investment funds if you invest directly, but access to the same fund could be available via a fund supermarket with a much lower initial charge.

However, the fund supermarkets rarely discount the ongoing charges, such as annual management fees, and some may even make charges of their own for ongoing administration. Like any investment opportunity you must satisfy yourself of the charges that will be levied before you decide to invest. If you have any doubt seek professional advice by asking your us – we will be happy to help.

Do all Fund Supermarkets offer the same investment opportunities?

Each of the various fund supermarkets has their own arrangements with Investment Management Groups. It is normal for a fund supermarket to offer a wide range of investment funds from various Investment Management Groups. This means that although some Management Groups will appear across a number of different supermarket platforms it is unlikely that different fund supermarkets will offer exactly the same investment choices.

Would investing via a Fund Supermarket increase the paperwork?

It is very unlikely that use of a fund supermarket will increase the amount of paper you are required to complete. Normally they greatly reduce the number of application forms, contract notes and valuation statements you will need to retain. Fund supermarkets allow you to consolidate fund investments into just one plan therefore you only need to complete one application form, instead of having to submit individual forms to each separate Investment Management Group you wish to invest with.

Ongoing paperwork is also reduced. You will receive one consolidated investment statement, normally half yearly, that provides details and valuations of all your investment holdings. Once again this saves you from having to retain many different statements from the various Management Groups in respect of the investment funds you hold.

Can I purchase an ISA from a Fund Supermarket?

The short answer is yes.

The taxation position of your investment in collective funds is no different if you decide to purchase through a funds supermarket or not. ISA’s are not necessarily free of income tax -it depends what they are invested in. Since 6 April 2004, any income from shares or share-based unit trusts within an ISA is paid with tax at 10% already deducted and this cannot be reclaimed. But there is no tax on any other type of income - for example, interest from gilts or corporate bonds - held within the ISA.

All types of ISA are free of capital gains tax. So, if your ISA increases in value, you make a 'capital gain', but you do not have to pay capital gains tax on this increase.

Are my investments taxed differently if I use a Fund Supermarket?

The taxation position of your investment in collective funds is no different if you decide to purchase through a funds supermarket or not. If your investment is held inside a tax efficient wrapper such as an ISA or PEP then any income or gains you receive are free of any taxes to you.

If you hold collective investment funds outside of a tax efficient wrapper such as an ISA then any income you receive will be treated as taxable income for Income Tax purposes. It may well be that you have no further liability as the tax deducted at source has satisfied you total liability. If you are subject to Income Tax at the Higher Rate (currently 40%) then some additional tax may be due.

As regards the taxation of any gains you make on investment held outside an ISA or a PEP, the sale of any investment funds would be treated as a disposal for Capital Gains Tax purposes. If the sale of your investment funds, when added to any other disposals made during the same tax year, and after taking account of normal relief and allowances, exceeds the annual exemption for Capital Gains Tax (currently £8,800 for the tax year 2006/07) then you may be subject to taxation on the gains you have made.

The taxation of individuals varies in accordance with their personal circumstances and therefore is beyond the scope of this guide. If you wish to know more about the taxation position of any investment you are considering, seek advice from a tax specialist or ask us. We will be happy to assist.

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